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11 MAR 1959

MEMORANDUM FOR: ACTING CHIEF, FINANCE DIVISION

SUBJECT: INTERNAL AUDIT AS A RESPONSIBILITY OF THE OFFICE OF THE COMPTROLLER

1. IN MY 6 MARCH 1959 MEMORANDUM TO YOU ON THE SUBJECT OF "PROGRAM FOR GREATER EFFICIENCY IN THE CIA," I COMMENTED THAT INTERNAL AUDIT IS A VERY IMPORTANT FUNCTION AND THAT IF THE INDUSTRIAL CONTRACT AUDIT BRANCH HAD THE PROPER PERSONNEL STRENGTH WE WOULD LIKE TO EXPAND THIS INTERNAL AUDIT ACTIVITY TO PROVIDE ADEQUATE PROTECTION AND CONTROL FOR THE CHIEF, FINANCE DIVISION AND THE COMPTROLLER. NO ATTEMPT WAS MADE TO ELABORATE ON THIS PARTICULAR STATEMENT AND THIS MEMORANDUM IS BEING WRITTEN WITH THE THOUGHT THAT A MORE DETAILED EXPLANATION IS DESIRABLE.

2. THE SECOND HOOVER COMMISSION REPORT RECOMMENDED THAT THE COMPTROLLER SET UP AND MAINTAIN THROUGHOUT HIS AGENCY AN ADEQUATE AUDITING SYSTEM IN CONFORMITY WITH THE PROVISIONS OF THE BUDGETING AND ACCOUNTING PROCEDURES ACT OF 1950.

3. THE PURPOSE OF INTERNAL AUDIT IS TO PROVIDE THOSE RESPONSIBLE FOR MANAGEMENT AT ALL LEVELS WITH AN INDEPENDENT, OBJECTIVE, CONSTRUCTIVE EVALUATION OF THE EFFECTIVENESS AND EFFICIENCY WITH WHICH FINANCIAL RESPONSIBILITIES ARE BEING CARRIED OUT. ALL ORGANIZATIONAL COMPONENTS AND LEVELS OF OPERATION SHOULD BE SUBJECT TO INDEPENDENT AND COMPREHENSIVE AUDIT REVIEW AND APPRAISAL. INTERNAL AUDIT ACTIVITIES SHOULD INCLUDE EXAMINING AND APPRAISING POLICIES, SYSTEMS, PROCEDURES, RECORDS AND REPORTS RELATING TO BUDGETING, ACCOUNTING, FINANCIAL OR BUSINESS TRANSACTIONS OF ALL KINDS AND MATTERS OF RELATED NATURE. THIS INCLUDES EXAMINATION AND EVALUATION FROM A FINANCIAL MANAGEMENT STANDPOINT OF PROCUREMENT, SUPPLY AND PROPERTY MANAGEMENT POLICIES, PROCEDURES AND TRANSACTIONS. AUDIT ACTIVITIES SHOULD BE DIRECTED TOWARD DETERMINING THAT MANAGEMENT CONTROLS AT ALL LEVELS ARE ADEQUATE IN CONCEPT AND EFFECTIVE IN APPLICATION. THE AUDITORS SHOULD REPORT THE FACTS ASCERTAINED AND MAKE RECOMMENDATIONS IN CONNECTION THEREWITH TO THE COMPTROLLER OF THE AGENCY IN ORDER THAT HE MIGHT REPORT FURTHER TO THE APPROPRIATE LEVELS OF MANAGEMENT. I BELIEVE THIS IS THE INTERNAL AUDIT CONCEPT ENVISAGED BY THE HOOVER COMMISSION AND CURRENTLY EMPLOYED BY MOST AGENCIES.

4. OUR AGENCY, IN ITS AUDIT STAFF, HAS AN EFFECTIVE, COMPREHENSIVE AUDIT FUNCTION WHICH OPERATES INDEPENDENTLY FROM THE OFFICE OF THE COMPTROLLER AND THE OPERATING DIVISIONS AND IS RESPONSIBLE TO THE DIRECTOR OF THE AGENCY.

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SINCE THE DIRECTOR OF CENTRAL INTELLIGENCE HAS FINAL AUTHORITY WITH RESPECT TO THE AGENCY'S CONFIDENTIAL FUNDS ACTIVITIES, THERE IS NO OUTSIDE AUDIT OF CONFIDENTIAL FUNDS AND THEREFORE, THE AUDIT STAFF IS, IN EFFECT, THE GENERAL ACCOUNTING OFFICE REPRESENTATIVE. THERE IS NO INTERNAL AUDIT GROUP IN THE COMPTROLLER'S ORGANIZATION AND THE COMPTROLLER IS LEFT IN THE POSITION OF HAVING AUDIT DEFICIENCIES, OF WHICH HE CANNOT INDEPENDENTLY BECOME AWARE, REPORTED DIRECTLY TO THE DEPUTY DIRECTOR (SUPPORT). THE COMPTROLLER TAKES CORRECTIVE ACTION ON FINDINGS OF THE AUDIT STAFF RATHER THAN HAVING HIS OWN INTERNAL AUDIT STAFF CORRECTING PROCEDURES AND POLICIES IN SUCH A MANNER AS TO PRECLUDE THE DEFICIENCIES FOUND BY AUDIT STAFF.

5. THE TECHNICAL ACCOUNTING STAFF PERFORMS SOME OF THE FUNCTIONS OF AN INTERNAL AUDIT STAFF. HOWEVER, THE TECHNICAL ACCOUNTING STAFF HAS AN ADEQUATE WORKLOAD AT THE PROCEDURE WRITING AND POLICY MAKING LEVEL. THIS TYPE OF WORK REQUIRES A MUCH MORE HIGHLY SKILLED PROFESSIONAL STAFF THAN WOULD BE REQUIRED OF A NORMAL INTERNAL AUDIT WORKING STAFF.

6. AN INTERNAL AUDIT STAFF REPORTING DIRECTLY TO THE COMPTROLLER WOULD ALWAYS STRIVE FOR PREVENTIVE ACTION RATHER THAN REMEDIAL ACTION. HOWEVER, THE INTERNAL AUDIT STAFF WOULD ALSO BE THE LOGICAL PERSONNEL TO ASSIST IN REMEDIAL ACTION ONCE AN AUDIT DEFICIENCY IS REPORTED BY AUDIT STAFF. CURRENTLY, REMEDIAL ACTIONS ARE FREQUENTLY SUPERVISED BY HEADQUARTERS OPERATIONAL PEOPLE WHO ARE QUALIFIED TO FULFILL THE ASSIGNMENT. THIS RESULTS IN TEMPORARILY REMOVING THE INDIVIDUAL FROM HIS REGULAR OPERATING ROUTINE AND CAUSES A DISRUPTION OF THE ACTIVITY OF THE OFFICE FROM WHICH HE IS BORROWED. A PERMANENT STAFF OF INTERNAL AUDITORS CAPABLE OF PERFORMING THESE ASSIGNMENTS WOULD LEAD TO MUCH SMOOTHER OPERATIONS OF THE COMPTROLLER'S AREA OF RESPONSIBILITY.

7. SPECIFIC DUTIES OF AN INTERNAL AUDIT STAFF MIGHT INCLUDE, BUT WOULD NOT BE LIMITED TO, THE FOLLOWING:

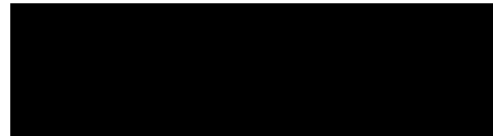
- A. EXAMINATION OF BUDGET OFFICERS' ACCOUNTS.
- B. PERIODIC AUDIT OF THE OPERATIONS OF THE MONETARY BRANCH, FINANCE DIVISION.
- C. RECONCILIATION AND AUDIT [REDACTED]
- D. COORDINATION OF ACTIVITIES ON PERSONAL SERVICE CONTRACTS AND INDUSTRIAL CONTRACTS.
- E. COORDINATION OF PURCHASING BY ALL AREAS OF THE AGENCY.
- F. REVIEW OF ALL TYPES OF PROCUREMENT.
- G. COORDINATION OF ALL VOUCHER AUDITS.
- H. TAKING REMEDIAL ACTION ON AUDIT STAFF REPORTS.

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- I. PROVIDING THE FOLLOW-UP ON ACTION TAKEN BY OPERATIONAL PERSONNEL ON INTERNAL AUDIT REPORTS.
- J. ASSISTING IN THE INSTALLATION OF THE AGENCY COST ACCOUNTING SYSTEM.
- K. MAKING SPECIAL INVESTIGATIONS DIRECTLY FOR THE COMPTROLLER.



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CHIEF,
INDUSTRIAL CONTRACT AUDIT BRANCH

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